

R-18

January 19, 2021

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize final reconciliation payment to SMG/ASM Global under Management Agreement No. 21667 for operational expenses for Fiscal Year 2020 (FY 20) at the Long Beach Convention and Entertainment Center (Convention Center), due to COVID-19 pandemic impacts.

Authorize an advance of payment expected to be owed under Management Agreement No. 21667 to SMG/ASM Global for operational expenses for FY 21 at Convention Center, due to COVID-19 pandemic impacts.

Increase appropriations in the Tidelands Operating Fund Group in the Economic Development Department in the amount of \$3,900,000, offset by funds available and/or reserves to cover the FY 21 operational deficiency of the Convention Center. (District 2)

DISCUSSION

The Long Beach Convention and Entertainment Center (Convention Center) has experienced a major reduction in events and operations due to COVID-19 pandemic related economic impacts and state and local operating restrictions. The resulting loss of operating revenue has severely impacted cashflow available for even minimal maintenance and operation at the Convention Center.

SMG/ASM Global (SMG/ASM) operates the Convention Center under contract with the City. SMG/ASM has taken measures to minimize operating costs at the center. Staffing has been reduced to 15 positions, and major systems at the Convention Center are run at minimal capacity. The central plant at the Convention Center must remain operational, as it supports utilities at the center and at the Hyatt Long Beach. Additionally, staff must continue to provide minimal maintenance and security at the center during the COVID-19 pandemic shutdown.

Under the Management Agreement (Agreement), which governs the SMG/ASM operation of the Convention Center, SMG/ASM must remit a portion of the profits to the City of Long Beach (City). The Tidelands Operating Fund Group normally receives approximately \$500,000 annually from Convention Center profits. However, per the Agreement, when operating expenses exceed operating revenue for the fiscal year, the City must reimburse SMG/ASM for this operational deficiency.

As described above, the Agreement typically results in a payment to the City, after operating expenses are deducted from revenues generated by activities and events. However, the Agreement with SMG/ASM did not anticipate a severe disruption such as the COVID-19 pandemic, that would close the Convention Center for a sustained period and limit the activities and events that generate adequate revenue that offset or exceed costs for operating the facilities. Prior to the pandemic, the Convention Center had almost 130 events planned for 2020. Most of those were cancelled throughout the year. The Convention Center has already received 42 cancellations for 2021, with more expected.

This operational deficiency existed over the last half of FY 20, necessitating an advance of funds. On July 7, 2020, the City Council approved an advance of \$3,000,000 against an estimated \$4.7 million operating deficiency payment that would be due to SMG/ASM for FY 20 at the end of the calendar year. The advancement was made in five equal monthly installments of \$600,000 from the months of August through December 2020. SMG/ASM has recently provided the City an update to the total FY 20 operating deficiency estimated to be \$3,463,134. An additional \$463,134 beyond the advancements made is estimated to be due to SMG/ASM as a final reconciliation payment for FY 20 operating deficiencies upon receipt of audited financial statements expected in January 2021.

Due to these unique and historic service disruptions, it is anticipated that the Convention Center will continue to experience cashflow deficiencies through the first half of FY 21. For the first six months (October 2020 through March 2021) of FY 21, it is estimated that SMG/ASM will have an operational deficiency of \$3,900,000. Current and future health orders make it difficult to forecast beyond the first half of FY 21. To cover the deficiency in costs to minimally maintain the Convention Center, SMG/ASM is requesting a cash advance of \$3,900,000, in the form of six equal monthly installments of \$650,000. Per the Agreement, a final reconciliation payment will be due to SMG/ASM after the audited financial statements are completed for the fiscal year ending September 30, 2021.

As with the previous advance approved by the City Council on July 7, 2020, the reconciliation payment and request for advance payment toward FY 21 operational expenses do not approve any additional funding otherwise due to SMG/ASM under the existing Agreement. Considering the continued negative economic impacts of the COVID-19 pandemic, staff recommend this additional cash advance as an appropriate action to help maintain and secure the Convention Center.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on December 9, 2020 and by Budget Management Officer Rhutu Amin Gharib on December 30, 2020.

TIMING CONSIDERATIONS

City Council action is requested on January 19, 2021, to address the ongoing cashflow deficiency for the minimal maintenance and operation of the Convention Center.

EQUITY LENS

The City has incorporated the Equity Toolkit into this recommendation as requested by the City Council on April 21, 2020. This recommendation is not anticipated to have any adverse equity impacts.

FISCAL IMPACT

The final FY 20 reconciliation payment anticipated to be \$463,134 will be paid from the Tidelands Operating Fund Group in the Economic Development Department and is due under the existing Agreement. Appropriations to cover FY 20 losses will be requested in the FY 20 Third Departmental and Fund Group budget adjustments letter.

The advance payments requested against FY 21 operating deficiencies, totaling \$3,900,000 for the first half of FY 21, will be paid in six equal monthly installments of \$650,000 from the Tidelands Operating Fund Group. An appropriation increase of \$3,900,000 is requested in the Tidelands Operating Fund Group in Economic Development Department to allow payment to SMG/ASM. While the advancement of funds should have no additional fiscal impact other than a lost opportunity for interest earnings and is considered a necessary cost associated with the COVID-19 pandemic, the Tidelands Operating Fund Group has been impacted by the pandemic with heavy losses in oil revenues in FY 20, and it is anticipated that the combination of revenue losses and additional expenses such as the one described in this item will require a draw down from funds available and/or reserves in FY 20 and/or in FY 21. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


JOHN KEISLER
DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:


THOMAS B. MODICA
CITY MANAGER